

## **RSC Policy Brief: President's Medicare "Trigger" Proposals**

*February 15, 2008*

**The RSC has prepared the following policy brief summarizing President Bush's proposals to address the Medicare funding warning issued by the Medicare trustees, as required by the Medicare Modernization Act.**

**Background:** Title VIII of the Medicare Modernization Act (MMA) includes provisions requiring the President to submit legislation within 15 calendar days of his annual budget submission in the event of a funding warning being issued by the Medicare trustees. Because the trustees last April submitted their second consecutive warning that Medicare is projected to claim a growing share of general revenues within the next seven years, the President put forward his proposals to address the pending funding shortfall. Under provisions established in statute, the legislative proposals will be introduced by the House Majority and Minority Leaders on the President's behalf within three legislative days.

During the conference committee's consideration of MMA, the funding warning mechanism was included at the behest of the Republican Study Committee as one device to help alleviate conservatives' concerns about Medicare's long-term solvency and ensure that Medicare's claims on general budgetary revenues would not overwhelm either other federal budgetary priorities or the national debt. By providing "fast-track" procedures for considering bills to improve the program's solvency, the Medicare trigger also provides conservatives with another opportunity to examine more fundamental reforms to the way seniors' health care is financed and delivered.

**Summary of Proposal:** The Administration's legislative proposal to address the "trigger" contains two titles. The first title puts forward suggestions to make the Medicare purchasing system more cost-effective from a budgetary standpoint. The second incorporates liability reforms that will reduce Medicare expenditures, as well as additional means-testing proposals that will increase Medicare revenues by raising premiums on wealthy seniors. A preliminary summary of the legislation follows:

*Value-based Purchasing:* This concept, also known as “pay-for-performance,” would vastly expand the federal government’s role in health care by adjusting physician and provider reimbursement levels to reflect successful patient outcomes on a risk-adjusted basis. The proposed legislative package would provide for greater transparency of price and quality measures, and would further authorize the Secretary to take steps to adjust reimbursement levels in order to purchase care from those providers which provide the greatest value to beneficiaries and the Medicare program. The legislation also requires the Secretary to make high-deductible health plans available in the Medicare program, and provide a transition for individuals not yet enrolled in Medicare who own Health Savings Accounts (HSAs).

While policy-makers of all political stripes believe in providing consumers with additional price and quality transparency information, the further step of tying Medicare reimbursement levels crafted by federal bureaucrats to either process or outcome measures could prove much more problematic. Although its advocates believe pay-for-performance can achieve significant budgetary savings, existing Congressional Budget Office (CBO) models have failed to realize any measurable impact on future Medicare expenditures. Additionally, some conservatives may be concerned that this methodology would deepen the government’s role in health care by altering the fundamental doctor-patient relationship, leading to a more intrusive federal bureaucracy dictating the terms of patient care.

*Medical Liability Reform:* This proposal would help bring down health spending both within and outside Medicare by helping to eliminate frivolous lawsuits and providing reasonable levels of compensation to victims of medical malpractice. Provisions of the bill include a three-year statute of limitations, a cap on non-economic damages of \$250,000, and reasonable limits on attorney contingency fees charged to successful claimants.

In 2003, the Congressional Budget Office scored a similar liability reform bill passed by the House (H.R. 5) as lowering Medicare spending by \$11.2 billion over a ten-year period. While CBO staff have indicated that state liability reforms in the intervening time have reduced the savings level below the baseline for federal liability reform, savings from passage of the President’s proposal would likely still generate several billion dollars in savings to Medicare.

*Means Testing:* The legislation proposes to establish an income-related Part D premium consistent with the Part B “means testing” included in Title VIII of the Medicare Modernization Act. The proposal—which was included in the Fiscal Year 2009 budget—would achieve savings of \$3.2 billion over five years. The RSC has previously included similar proposals in its budget documents as one way to constrain costs and ensure consistency between a Part B benefit that is currently means-tested and a Part D benefit that is not.

**Other Reform Options:** The legislative package advanced by the Administration comes on the heels of a Fiscal Year 2009 budget that proposed \$178 billion in Medicare savings over the next five years, largely through adjustments to provider reimbursements. In addition to the various proposals put forward by the Administration and described above, the opportunity afforded by the trigger could be used to advance other comprehensive proposals to reform Medicare, which could include:

*Premium Support:* This model would convert Medicare into a system similar to the Federal Employees Benefit Health Plan (FEHBP), in which beneficiaries would receive a defined contribution from Medicare to purchase a health plan of their choosing. Previously incorporated into alternative RSC budget proposals, a premium support plan would provide a level playing field between traditional Medicare and private insurance plans, providing comprehensive reform, while confining the growth of Medicare spending to the annual statutory raise in the defined contribution limit, thus ensuring long-term fiscal stability.

*Restructure Cost-Sharing Requirements:* This concept would restructure the existing system of deductibles, co-payments, and shared costs, which currently can vary based on the type of service provided. Additionally, Medicare currently lacks a catastrophic cap on beneficiary cost-sharing, leading some seniors to purchase Medigap policies that insulate beneficiaries from deductibles and co-payments and therefore provide little incentive to contain health spending. Reforms in this area would rationalize the current system, generating budgetary savings and reducing the growth of health spending.

*Increase Medicare Part B Premium:* The RSC has previously proposed increasing the Part B premium from 25% to 50% of total Medicare Part B costs, consistent with the original goal of the program. This concept would not impact low-income seniors, as Medicaid pays Medicare premiums for individuals with incomes under 120% of the federal poverty level.

*Bipartisan Commission:* This proposal would provide an expedited mechanism requiring Congress to hold an up-or-down vote on the recommendations of a bipartisan commission examining ways to reform Medicare and other federal entitlements.

*Sequestration Mechanism:* This proposal would cap the growth of overall Medicare spending levels, and provide adjustments in benefit structures in the event that spending exceeded statutory levels. The budget submission to Congress did include the proposal that physician payments be reduced 0.4% for every year in which general tax revenues cover more than 45% of Medicare costs—the level at which the Medicare Modernization Act required that a funding warning be issued, and action taken by Congress. The Administration proposal is designed to provide Congress with an impetus to embrace comprehensive entitlement reform by requiring across-the-board cuts absent pre-emptive legislative action.

**Conclusion:** The Medicare funding warning issued by the trustees last year provides an opportunity to re-assess the program's structure and finance. While competition among drug companies has ensured that expenditures for the MMA's prescription drug benefit remain below the bill's original estimates, introduction of pharmaceutical coverage has dramatically increased the overall growth of health care costs within the Medicare program, leading to the trustees' funding warning. The confluence of these two events should prompt Congress to consider the ways in which competition could be used to reduce the growth of overall Medicare costs, similar to the way in which the market for pharmaceutical coverage reduced the estimated cost of the Part D prescription drug benefit.

The Administration has put forward two separate proposals—the first in its budget submission to Congress last week, the second as part of its formal “trigger” submission this week—to address

Medicare's long-term solvency issues and begin a process of comprehensive reform. Many conservatives are likely to view the President's proposals as a positive first step in the discussions about ways to curb soaring entitlements, while considering additional proposals described above to advance the discussion further and to ensure Medicare's long-term fiscal stability.

For further information on this issue see:

- [\*RSC Policy Brief: Medicare Funding Warning\*](#)
- [\*RSC Policy Brief: Health Care Proposals in FY09 Budget\*](#)
- [\*Medicare Trustee Reports\*](#)

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